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# Financial Briefs

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## Bonds at Every Stage of Life

Many think bonds are for the very conservative investor. In actuality, bonds are an important component to a well-balanced portfolio throughout every stage of an investor's life. They can provide stability during volatile markets, provide an income stream, help with tax liability, and provide higher rates of return for capital growth. Regardless of your life stage, you should consider having bonds in your investment portfolio.

### At the Beginning

As a beginning investor in your 20s or 30s, you have a long time to maximize capital and are probably in the best position to assume risks for larger returns. Even at this early stage of investing, you should develop a portfolio that also balances risk and market volatility. While higher-yield investments are important, you will still want to balance them with some lower-risk investments, including bonds. At this stage, you can:

- **Grow capital** with bonds that offer higher yields if you assume higher risk. Although higher-risk bond investments have potential for loss because of interest rate and credit risk, they are typically still a safer investment than equities. You should make sure you understand the terms and conditions, including the bond's rating,

call features, and if it is insured.

- **Protect your savings** for a large purchase, such as a car, a wedding, or a house. Lower-risk bonds can be a better investment than a traditional savings account to save for large purchases. Bonds will pay a higher interest rate and offer a safe way to protect your savings. You may want to consider Treasury or corporate bonds with maturity dates that align with the time frame in which you will need the money.
- **Diversify your employer-sponsored retirement plan**, such as a 401(k) plan. Your plan most likely offers a variety of mutual funds, and bond funds are a good way to diversify your portfolio and spread your risk. The stock and bond markets do not typical-

ly move in the same direction, so bonds can stabilize and help with your overall returns.

### In the Middle

Your mid-30s to late 40s should be a time of accumulating wealth and investing for retirement and other long-term goals. At this point in your life, you should rebalance your portfolio on a regular basis to ensure your allocation is keeping pace with your goals. Many experts agree that at this point you should consider more medium-risk investments in combination with your higher-risk investments.

Bonds should become a larger portion of your asset allocation than when you were younger, because they will offer more predictable income and continue to balance

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## Your Retirement Portfolio and Bonds

Of the three main asset classes, bonds often appear the least exciting. Perhaps the combination of their stable and seemingly turtle-paced growth decreases their likelihood of crossing investors' minds. However, bonds can be an important piece of any retirement portfolio, particularly as you age into your 40s and beyond. While there's never a one-size-fits-all rule when it comes to asset allocation, generally your

bond allocation should increase as you near retirement.

When you're young, bonds will likely be of little importance to you. History shows that bond returns are typically lower on the aggregate than stocks, so an investor who's 30-50 years away from retirement might be understandably less interested in bonds. Depending on your tolerance to a few downturns

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## Bonds at Every Stage

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higher-risk equities.

Following are some bonds to consider at this stage in your investment life:

- **Tax-advantaged bond investing** is a good way to help offset taxes if you're in a higher tax bracket. Municipal bonds, which are issued by state and local governments, are an attractive investment in your income earning years because they are exempt from federal income taxes. And, if you live in the same state as the issuer, they are free from state and local taxes as well. In most cases, you should not include this type of investment in a tax-deferred retirement or college savings account because you would be wasting the tax exemption feature.
- **Zero-coupon bonds can be a good cost-effective investment for specific goals**, such as paying for college or money for retirement. They are sold at a steep discount from their face value, and when they mature, the face value will include both the principal and the accumulated interest. These bonds also work well in a tax-deferred account because the interest is taxable when it is credited to the bond but you can't spend it until it matures.

### Approaching Retirement

Now that you're getting closer to retirement, you will want to take fewer chances of losing a large portion of your portfolio. Many experts recommend that at this point you should begin increasing the bond portion of your portfolio to 50% or more to lower your risk.

Some items to consider when evaluating bonds for your portfolio:

- **Managing interest rate risk** is important because when interest rates rise, bond prices fall and vice versa. One way to manage this risk is with a bond ladder. This strategy allows you to invest in a portfolio of bonds with different maturity time frames to

## Consider a Bond Tent

History has shown that the sequence of returns generated by a portfolio from one year to the next can hugely impact the total return generated over time. While long-term average returns impact how much money you make, the timing of those returns is equally important. For example, if you retire at the bottom of a bear market, you will see your holdings rise as the market recovers, but you will also see the overall portfolio growth reduced because of the amount of money that was withdrawn in early retirement.

An important strategy to consider is building a bond tent before you retire. This strategy increases the allocation of bonds during the 10 years or so prior to retirement, and then the bonds are sold from this portion of your portfolio during the first 10 to 15 years of retirement, providing you

with an income stream.

This strategy is called a bond tent because if you were to look at it on a line graph, the bonds in the portfolio steadily rise until it reaches a peak at retirement and then falls as the bonds are sold, which makes a tent shape.

The strategy works by reallocating a traditional 60/40 mix of stocks and bonds to an allocation of 50% or 60% in bonds by the time you retire. The bond holdings are then sold during the first half of retirement until the original mix is once again reached. This provides portfolio protection against major losses due to a market downturn during the first half of retirement. The portion of your portfolio that is still in stocks will continue on the path for long-term growth to fund your later years of retirement as well as provide protection against inflation.

help your investments do well in any interest rate environment. When rates rise, you will have short-term bonds that mature so you can then invest the principal at higher rates. And when rates fall, you will have the longer-term bonds paying higher returns.

- **Tax-advantaged bond investing** will continue to be a good way to manage taxes, especially if you're in a higher tax bracket. Again, municipal bonds can be a good investment because they are exempt from federal income taxes, and, if you live in the same state as the issuer, they are free from state and local taxes as well.

### In Retirement

Now your main goal becomes protecting and maximizing your income for the remainder of your life. Social Security will most likely only replace a portion of your income, so your portfolio and retirement benefits will need to make up the rest. Bonds will help you generate retirement income while preserving your principal.

Things to consider:

- **Guarding against inflation** because you are now living on a fixed income. Treasury Inflation Protection Securities (TIPS) or Treasury Inflation Indexed Securities will help you guard against inflation. TIPS have a fixed coupon rate, but their principal amount is adjusted every six months according to changes in the Consumer Price Index. When TIPS mature, you will get the higher of the original face value or the inflation-adjusted amount. You may also want to keep a small portion of your portfolio in stock for growth potential.
- **Spend from taxable accounts first** because when you take money from tax-deferred accounts, you will pay income tax on your distributions. By spending the tax-deferred accounts last, your portfolio will continue growing tax deferred while you are in retirement.

Please call if you'd like to discuss bonds in more detail. ■■■

## Your Retirement Portfolio

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throughout the course of your working life, the average return rate of stocks has historically been higher than that of bonds.

As you move closer to retirement, however, your vulnerability to risk increases, as you no longer have as much time to ride out a sudden stock decline. Increasing your bond allocation as you age can offer a buffer should you encounter a sharp decline in stocks. Keep in mind, however, that some of the age-based bond-to-stock ratio investment theories you've heard could be outdated guidance — it may not be realistic to tweak your allocation ratios based on advice born in times when bond yields were much higher, the cost-of-living-to-income ratio was less, and employer-sponsored pensions were more popular. Considering modern-day realities, along with the likelihood you'll live a longer life than your parents or grandparents, it may not be as prudent to increase your bond investments at the exact rate at which you're aging.

Of course, your retirement portfolio should align with your individual retirement goals and risk tolerance, which is why stock and bond allocations often vary from person to person even within the same age category. While bonds, like any investment, come with a modicum of uncertainty, they typically carry less risk than stocks. Therefore, a more conservative investor, regardless of age, might choose a larger portion of his/her asset allocation to represent bonds. On the other hand, because stocks outperform bonds when it comes to long-term growth, a younger, more aggressive investor might choose to start out with no bond investments at all, focusing on stocks until retirement is more visibly on the horizon.

To discuss your retirement goals and create or restructure a portfolio that best fits your overall goals and risk tolerance levels, please call. ■■■

## Building a Bond Ladder

While bonds are subject to several types of risk, two of the main types are interest rate risk, or the risk that interest rate changes will change your bond's value, and reinvestment risk, or the risk that interest and principal cannot be reinvested at the current bond's interest rate. It is difficult to simultaneously reduce both, since a rise in interest rates reduces reinvestment risk and increases interest rate risk. Thus, you need to find a balance between the two risks.

Using a bond ladder strategy can help investors strike this balance. The idea of a bond ladder is simple: instead of investing in bonds that all mature at roughly the same period of time, or in a haphazard pattern of maturities, you spread your portfolio out in roughly equal amounts over maturities that are evenly separated from one another. Ideally, these bonds are from the same issuer or issuers with the same credit quality.

For instance, a \$100,000 portfolio might consist of 10 different bonds of \$10,000 each, maturing in 10 consecutive years. When a bond matures, the principal is reinvested in another bond at the bond ladder's longest maturity date (10 years in this example).

If interest rates are higher then, your annual bond income will go up; if rates go down across the board, your income will still benefit from the relatively higher rates on the rest of your portfolio. In either case, because 90% of your portfolio is still throwing off the same cash flow, your annual income won't change much, which makes your life more predictable than if all of your bonds matured in any single year.

### Building a Laddered Portfolio

To build a laddered bond portfolio, there are four basic, interrelated decisions to make:

- **Decide on the average maturity.** This will be an arithmetic average of the maturities you use

to build your portfolio, which will determine your portfolio's overall price sensitivity to changes in interest rates.

- **Decide how many rungs your portfolio will have.** This will determine how much of the span of available interest rates you'll be capturing (shorter maturities tend to come with lower interest rates and longer maturities with higher rates).
- **Decide how many years apart each rung will be.** This will determine how often you'll be reinvesting in the long-maturity end of your portfolio. The closer together the rungs, the more often you'll be buying current market rates for the longer bonds. Depending on which way rates move, this can help or hurt you.
- **Decide on the sector or sectors of the bond market you want in your portfolio.** Do you want safety? Then go with U.S. government bonds. Do you want tax-exempt income? Then go with municipal bonds. Do you want a higher level of interest than either of these sectors provide, but still want financially reliable issuers? Then go with high-grade corporate bonds.

The major advantage to laddering is to smooth out the changes in the bond income you receive year-to-year, thus making it more predictable. But there are also downsides to laddering. One is that you will have more transactions than a portfolio with one far-off maturity date.

And it could generate less income than if you put all of your money into the highest-yielding maturity available. The tradeoff is that if rates rise significantly long before your bonds mature, you're stuck with all of your money earning less than if you were to reinvest funds from maturing bonds in the higher yields. ■■■

## Business Data

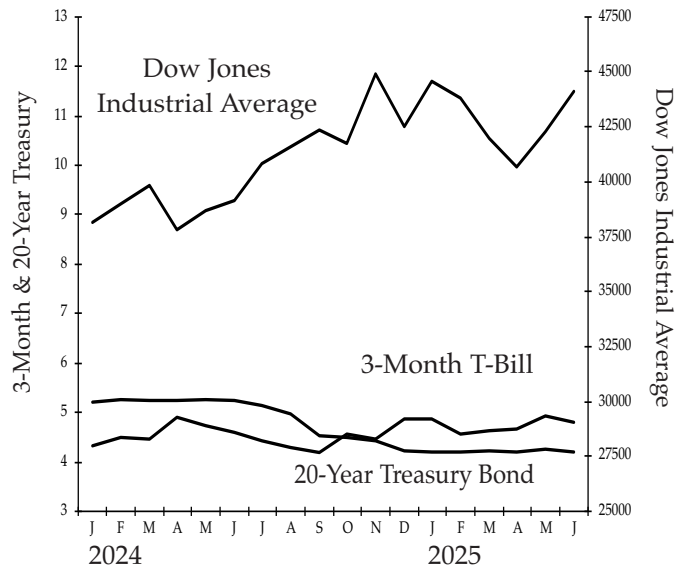


Indicator	Month-end				
	Apr-25	May-25	Jun-25	Dec-24	Jun-24
Prime rate	7.50	7.50	7.50	7.50	8.50
3-month T-bill yield	4.20	4.26	4.20	4.23	5.24
10-year T-note yield	4.17	4.41	4.24	4.58	4.36
20-year T-bond yield	4.68	4.93	4.79	4.86	4.61
Dow Jones Corp.	5.38	5.38	5.18	5.45	5.51
GDP (adj. annual rate)#	+3.10	+2.40	-0.50	+2.40	+2.60

Indicator	Month-end			% Change	
	Apr-25	May-25	Jun-25	YTD	12-Mon.
Dow Jones Industrials	40669.36	42270.07	44094.77	3.6%	12.7%
S&P 500	5569.06	5911.69	6204.95	5.5%	13.6%
Nasdaq Composite	17446.34	19113.77	20369.73	5.5%	14.9%
Gold	3302.05	3288.90	3281.00	25.4%	40.8%
Unemployment rate@	4.20	4.20	4.20	0.0%	5.0%
Consumer price index@	319.80	320.80	321.47	1.9%	2.4%

# — 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: Barron's, Wall Street Journal  
Past performance is not a guarantee of future results.

## 18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield January 2024 to June 2025



## News and Announcements

### The Role of Bonds in Your Portfolio

Before purchasing bonds for your portfolio, consider the following questions:

- **How much of your total investment portfolio do you want allocated to bonds?** The percentages you allocate to cash, stocks, and bonds will depend on your personal situation and financial objectives, but over time the percentage of bonds you own is likely to change.
- **When do you need your principal back?** If you're a buy-and-hold investor, you'll probably want to select a maturity date that coincides with your need for your principal. Investors who actively trade may be more interested in yield differences among maturity dates.
- **What types of bonds interest you?** Treasury securities are the safest since the U.S. government guarantees the timely payment of principal and interest if held to maturity. However, they typically have the

lowest yields. Municipal bonds contain more risk than Treasury securities, but typically less risk than corporate bonds. Corporate bonds usually offer higher returns due to the additional risk.

- **What are the tax consequences of bonds you are interested in?** Interest income is taxed differently for different types of bonds. Your tax bracket and the tax consequences of the interest income will impact your yield comparisons.
- **How much risk are you willing to tolerate?** Bonds are typically subject to interest rate risk, reinvestment risk, inflation risk, default and credit risk, and call risk. Each bond type is affected to a varying degree by each risk type.
- **Do you understand the specifics of bonds that interest you?** Before purchasing a bond, investigate it thoroughly, reviewing the yield, tax status, call provisions, and credit rating. ■■■

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